

CITY OF AUBURN
INVESTMENT POLICY

April 1995

City of Auburn Investment Policy

Introduction

The City of Auburn hereby establishes an Investment Policy in order to ensure that the City of Auburn invests public funds in a manner which preserves the public trust and which provides: (1) safety of principal; (2) sufficient liquidity to meet the City's daily and projected cash flow demands and (3) a market rate of return considered reasonable under generally accepted market principles. The City's investment strategies will be conducted in conformance with this policy and all applicable state and local statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City of Auburn. These funds are accounted for in the City's Budget and Comprehensive Annual Financial Report and include:

- General fund
- Special revenue funds
- Capital project funds
- Enterprise funds
- Lewiston-Auburn Airport
- Trust and agency funds
- Cemetery funds
- Endowments
- Any new fund created by the City Council, unless specifically exempted by the City Council.

Objective

The City's investment portfolio will be managed in a manner that seeks to attain a market rate of return considered reasonable under generally accepted market principles throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio thus ensuring prudent use of public funds and preservation of the public's trust. The primary objectives, in priority order, of the City of Auburn's investment activities shall be:

- **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the City of Auburn shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio . An investment is deemed safe if it can be liquidated without principal loss. No investment is deemed safe if

it might have to be liquidated at a principal loss to meet an operating requirement of the City or any fund which was *foreseeable* at the time the investment was made. It is recognized that the City may occasionally realize a principle loss on an investment when premature liquidation is necessary to meet an *unforeseen* expenditure.

- **Liquidity.** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- **Return on investment.** The City's investment portfolio will be designed with the objective of attaining a market rate of return considered reasonable under generally accepted market principles throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the investment policy and written procedures established by the Finance Director shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided s/he has acted with due diligence, deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments when practicable.

Delegation of Authority

The Finance Director is authorized to manage the City of Auburn's investment program. This responsibility may be delegated by the Finance Director to the City Treasurer. The Finance Director shall establish written procedures for the operation of the investment program consistent with this investment policy. The Finance Director will work with the City auditor and the Investment Advisory Committee to develop the internal policy. The policy will contain explicit procedures including the delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Investment Advisory Committee will review the internal control policy and include any recommendations regarding the policy in the Committee's annual report to the City Council.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Finance Director and the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City of Auburn's portfolio. Any officer or employee who has questions regarding such matters may request an opinion from either the City's Investment Advisory Committee or the City's Ethics Panel.

No City employee shall invest City funds in any instrument or institution in which he/she has any direct or indirect financial interest, nor shall he/she accept any gift, free service or payment of any kind for performing their duties under this policy. Any personal investment by a city employee in U.S. Government Securities or other publicly traded securities on organized exchanges or routine depository/loan relationships in a financial institution shall not be deemed a direct or indirect financial interest for purposes of this article.

Internal Controls

The Finance Director shall establish a system of internal controls which shall be documented in writing. The internal controls shall be reviewed by the Investment Advisory Committee and the City's independent auditor in order to enhance internal control and assess compliance with policies and procedures. The internal controls system shall be designed to prevent losses of public funds arising from employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers.

Authorized Financial Dealers and Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The Finance Director shall obtain evidence of this qualification prior to investing with said firm. No public deposit shall be made except in a qualified public depository as established by state laws.

Authorized Investments

The City of Auburn is authorized to invest only in the following types of securities:

- Obligations of the U.S. government and its agencies (such as Treasury bills and notes); Fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations;
- Prime bankers acceptances;
- Prime commercial papers;
- Repurchase agreements collateralized by U.S. Treasury securities;
- Money market mutual funds whose portfolios consist of government securities

or broadly diversified money market instruments, whose purpose is to maintain a stable principle dollar value;

- Corporate bonds rated single A or higher by at least two rating agencies.

Collateralization

Collateralization of accounts and deposits will be required only when exceeding an amount equal to 25% of capital, surplus and undivided profits as defined in state law (M.R.S.A. 30-A, 5706 et seq.).

Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City of Auburn shall be conducted on a "delivery vs. payment" basis. Securities will be held by a third party custodian, or Trust Department designated by the Finance Director and Treasurer and evidenced by safekeeping receipts.

Risk and Diversification

The City recognizes that investment risks can result due to market changes and other conditions. Therefore, portfolio diversification is employed as one way to control risk. The Finance Director is expected to display prudence in the selection of securities as a way to minimize risk of loss.

The City will diversify its investments by security type and institution other than U.S. government obligations in order to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, with a specific issuer, or in a specific class of securities. Diversification strategies shall be established by the Finance Director and reviewed periodically by the Investment Advisory Committee which include guidelines pertaining to what percentage of the entire portfolio can be invested in securities other than repurchase agreements, Treasury obligations, or insured/collateralized certificates of deposits

In establishing specific diversification strategies, the following general principles will apply:

- portfolio maturities will be staggered to avoid undue concentration in a specific maturity sector;
- maturities selected will provide for stability of income and reasonable liquidity;
- liquidity will be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable securities which can be sold to raise cash in one's day's notice without principal; and
- risks of market price volatility will be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

Unauthorized and inappropriate investments

To limit risk, the City will not invest in highly volatile instruments, such as derivatives, which do not meet the criteria set forth in the City's investment policy. These include the following: Interest Only (IO's), Principal Only (PO's), Treasury STRIPS, Z Tranches, PAC's, Inverse Floaters, "Kitchen Sink," "Tigers," "Cats" or other similar types of instruments.

Maturities

Assets of the City shall be invested in instruments with maturities that are timed according to the City's anticipated cash requirements to the extent possible. Limitations on instruments, diversification, and maturity scheduling will depend on whether the funds being invested are considered short-term or long-term funds. All funds will be considered short term except those reserved for capital improvement projects or trust and endowment funds.

Short-term funds. The City will not directly invest short-term or operating funds in securities maturing more than one year from date of purchase unless based upon recommendations from the Investment Advisory Committee, the City Council approves a temporary extension which will coincide with the City's projected cash flow needs.

Long-term funds. Long term funds such as trust, endowment, and capital improvement funds may be invested in securities exceeding one year if the maturity of such investments are made to coincide as nearly as practicable with the City's projected cash flow needs for the use of the funds

Accounting Method

Investments will be carried on the City's books at cost. Gains or losses from investment sales will be credited or charged to investment income at the time of sale. Premiums or discounts on securities may be amortized over the life of the securities.

External Management

The City Manager, with the approval of the City Council, may contract with a qualified external investment advisor and/or money management company in order to benefit from portfolio diversification, credit research, full-time portfolio management and economies of scale that are unavailable from the City's internal staff. Any such contract will define and control the risks of the portfolio and establish performance criteria for monitoring and evaluating results.

Upon advice of the investment advisor, the City may invest in corporate stocks, bonds or other debentures subject to limitations contained in state law (M.R.S.A. 30-A, section

5706, et seq.)

Transition Period

The Investment Policy is not intended to restrict the City's efforts to return the investment portfolio to a more stable and liquid position that meets the criteria established by this policy.

During the period the City is attempting to restructure its investment portfolio, the external investment advisor may refashion the City's portfolio by employing alternatives that might be otherwise unacceptable provided that the Investment Committee has endorsed the advisor's recommendations and the City Council has been fully informed.

Quarterly and Annual Reports

At least quarterly, the Finance Director shall submit an investment report to the City Council and the Investment Advisory Committee that summarizes the City's investment portfolio, and outlines recent market trends, economic outlook, and anticipated investment conditions. The report will summarize the investment strategies employed during the most recent quarter, transactions made during the previous quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and other pertinent features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The reports shall contain sufficient information to permit an independent organization to evaluate the performance of the City's investment program.

Investment Policy Adoption

The City of Auburn's investment policy shall be adopted by the Auburn City Council upon review and recommendation of the Finance Director and the Investment Advisory Committee. The policy shall be reviewed annually and the Investment Advisory Committee will provide a written report to the City Council in January regarding the adequacy of the policy and any changes that may be necessary.

Adopted: April 24, 1995